

CREDIT ISSUES ASSOCIATED WITH RTO WEST SERVICE

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There are several basic credit risk questions concerning transactions with RTO West:

1. Which party bears the risk of non-payment for each service contained in the RTO West Tariff and each transaction undertaken by RTO West pursuant to the TOA?
2. Is the party that bears the ultimate credit risk also the party that manages the credit relationship for the transaction?
3. If RTO West is managing credit for transactions for which other parties assume the ultimate credit risk, what is the procedure to protect the party bearing the risk and can that procedure be changed without that party's consent?
4. Can a Scheduling Coordinator act for more than one PTO and/or other entity and thus put one PTO at risk of a default by company loads of another PTO?
5. Conversely, can a Scheduling Coordinator limit itself to be a Scheduling Coordinator for only one PTO?

A list of possible transactions to analyze against the foregoing questions would include:

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| Case 1. | A PTO, acting solely as its own Scheduling Coordinator, purchases transmission and ancillary services from RTO West for its own Company Loads in states that have not deregulated; |
| Case 2. | A Scheduling Coordinator (energy marketer or other qualified entity) purchases transmission and ancillary services for loads on a PTO system in a state that has deregulated; |
| Case 3. | A Scheduling Coordinator purchases transmission and ancillary services from RTO West for: (i) Company Loads on two different PTO systems; or (ii) Company Loads on two different PTO systems and an aggregator's deregulated load. |
| Case 4. | A network wholesale load in a state that does not deregulate acts as its own Scheduling Coordinator and purchases transmission and ancillary services from RTO West at Company Rates of a PTO. |
| Case 5. | Party X purchases FTRs sold by RTO West on behalf of a PTO. |

Case 6. RTO West collects funds for services (such as the uplift charge) for services provided by RTO West.

The Scheduling Coordinator Application Outline produced in Stage 1 contains the following statement:

J.1.4 SC Billing

The SC must maintain a contractual relationship with the entities it represents. The SC is responsible for payment of charges for all services provided under the RTO WEST Tariff as defined in Appendix G and the Service Schedules.

[To what extent was a decision reached in Stage 1 that the credit relationship would be with the Scheduling Coordinator, and to what extent was it decided that this would be the exclusive credit relationship?]

It appears to be implicit in the Transmission Operating Agreement (“TOA”) and the Agreement Among RTO West and Transmission Owners to Use Paying Agent (“Use of Paying Agent Agreement”) that the individual Participating Transmission Owner (“PTO”) bears the risk of non-payment for the Company Rate portion of the billing but not for any charges for services provided by RTO West (and presumably not for FTRs).

Section 14.2.3 of the TOA provides that RTO West bills Company Loads for the Company Rate "as a billing agent for the Executing Transmission Owner." RTO West "shall have no ownership interest in the proceeds or receivables of the amounts billed by RTO West as the billing agent for the [PTO]." (§ 14.2.3). The bills prepared by RTO West "shall provide for payment of the Company Rate portion of the bill directly to a paying agent designated by the [PTO]." (§ 14.2.3). Again "as billing agent" for the Executing Transmission Owner, RTO West imposes delinquent charges on late payments, which charges are based on the tariff of the Executing Transmission Owner. The last sentence of § 14.2.3 of the TOA then gives RTO West the right, as billing agent, to "employ such actions to collect delinquent payments and such remedies for nonpayment" as it employs for delinquent payments due RTO West, supplemented by remedies established pursuant to the lawful rate schedules of the PTO. Based on this language, one might conclude that the RTO West's role in collecting revenues for Company Rates is merely as an agent for each Executing Transmission Owner. Therefore, it appears that the PTO bears the risk of nonpayment and the RTO does not spread the risk of non-payment to all customers.

In addition, section 7(d) of the Use of Paying Agent Agreement provides that RTO West's billings to customers "on behalf of each Transmission Owner" may be combined with other bills for other Transmission Owners, but the bill for each Transmission Owner must be separately identified. Thus, the separate billings allow for the tracking of exactly which loads are paying their bills and which are not. The risk of non-payment can therefore fall on the PTO whose Company Load is not paying. Like the TOA, the Use of Paying Agent Agreement provides that the RTO is merely the billing agent for the owner. (§ 7(a)). The TOA also provides that the RTO has no ownership interest in the proceeds. (§ 14.2.3). The Use of Paying Agent Agreement specifically

provides that the revenues from the bills are "the revenue and property of the Transmission Owners . . . in their individual capacities." (§ 8). It would seem to follow that the shortfalls have to fall to the transmission owners as well.

For reference as a drafting guide, the Billing and Settlements Content Group looked at Appendix G of the Desert Star Tariff, which contains a method of payment of the PTO, which is expressly conditioned upon receipt of funds from the Scheduling Coordinator. Section G.7 of Desert Star Appendix G.

In Case 1, as described above, under the TOA and the Use of Payment Agent Agreement it is inferred that the risk of non-payment of the Company Rate by the Company Load remains with the PTO. RTO West has no credit risk. The TOA and the use of Payment Agent Agreement expressly provide that the funds which are paid never become property of RTO West. There is no new credit management issue in this case. Bonneville would bear the risk of non-payment of any wholesale customer on its system. IOU PTO's would bear the risk of non-payment for their retail loads on their systems in states that have not been deregulated.

In Case 2, RTO West would be extending credit to a creditworthy party (depending on credit deposit requirements). Is the creditworthy party the Scheduling Coordinator, the transmission customer, or both? Assuming that the creditworthy party is the Scheduling Coordinator, in a deregulated state the Scheduling Coordinator will likely not be the PTO. To the extent that a transmission customer in a deregulated state is using a PTO's system the ultimate payment of the Company Rate would be payable to the PTO. Question: To what extent do the PTO's credit risk management policies extend to RTO West's extension of credit? Can the PTO direct RTO West to cut off transmission and ancillary service transactions to a Scheduling Coordinator that is at its limit of credit in an overall credit arrangement with the PTO, or can RTO West allow those limits to be exceeded?

In Case 3, assuming that the creditworthy party is the Scheduling Coordinator, what happens if only one of the multiple transmission customers pays the Scheduling Coordinator, while the others default? Does the Scheduling Coordinator make payments to the PTO's pro rata? How do the two PTOs jointly manage the credit risk?

In Case 4 the transmission customer is the also the Scheduling Coordinator. The credit issues raised are essentially the same issues as those raised in Case 2.

In Case 5, RTO West is conducting an auction to sell Firm Transmission Rights for congested paths. The proceeds belong to the PTOs, or to other FTR holders. Question: Is the auction on a credit basis or on a cash-up-front basis, and if on a credit basis, what is the extent of possible value that might be at risk for the credit sale conducted by RTO West? Who gets to set the credit limits?

In Case 6, RTO West has a credit relationship with a purchaser of the services from RTO West and the funds belong to RTO West. There is no credit management

issue for PTOs. RTO West's own credit policies placed in the RTO West Tariff will govern any non-payment issues, and RTO West would raise its rates to offset any bad debts. Thus, the credit risk is spread to all RTO West customers.

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